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Economic Review

- The Labor Department reported that **initial jobless claims** fell last week for the second straight week to its lowest level since the week of July 6th. This week's print indicates that we have finally moved into a normalized environment with claims no longer exhibiting impacts from the Hurricane. First time claims in regular state programs recorded 227,000 for the week ending August 10th after the prior week's report of 234,000. The four-week moving average dropped to 236,500 from 241,000 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, fell 7,000 to 1,864,000 for the week ending August 3rd. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The Treasury Department reported a **budget deficit** of $243.7 billion for the month of July with the government collecting $330.4 billion and spending $574.1 billion. This compares to a deficit of $220.8 billion a year earlier. The year-to-date deficit is $1,517 billion, which compares to a year-to-date deficit of $1,614 billion last year. July is the tenth month in the government's fiscal year.
- The **National Federation of Independent Business** reported sentiment among small businesses improved in July, driven primarily by the outlook for general business conditions. Many of the other components of the index remained relatively unchanged, signaling small businesses are in a wait and see mode in front of national elections. The index climbed to 93.7 in July from a 91.5 reading in June.
- The Labor Department reported the **producer price index** came in modestly softer than expected, continuing the pressure for lower interest rates. The smaller than expected gain reflects the first decline in services costs this year. Wholesale prices climbed 0.1% in July after increasing 0.2% in June. Year-on-year wholesale prices were up 2.2% in July after June's report of 2.7%. Goods prices, which make up 30% of the weighting, rose 0.6% in July after declining 0.4% in June. Services, which make up 67% of the index, declined 0.2% in July after climbing 0.4% in June. The **core PPI**, which excludes volatile food and energy prices, remained unchanged in July, with a year-on-year gain of 2.4%. **PPI ex food, energy and trade** climbed 0.3% in July.
- The Labor Department reported the **consumer price index** climbed 0.2% in July after soft readings in June and May. The biggest surprises in the data was the weakness in energy and strength in shelter costs. There is still plenty of pent-up demand on the sidelines in both the for-sale housing market and the rental market. This report builds the case that inflation will continue to gradually approach the Fed's target of 2%, even as housing costs continue to be sticky. Consumer prices year-on-year change declined to 2.9% from last month's 3.0%. Service prices, which make up 64% of the index, gained 0.3% in July after gaining 0.1% in June. Prices of commodity based manufactured goods fell 0.1% in July after declining 0.4% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.2% in July after increasing 0.1% the prior month. The year-on-year change in core CPI is 3.2%, still higher than the Fed's target rate of 2.0%.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, contracted for a ninth straight month. The index recorded a negative 4.7 in August after a negative 6.6 reading in July. New orders recorded a negative 7.9 in August after a negative 0.6 reading in July while shipments decreased to positive 0.3 after a positive 3.9 reading last month. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** increased a better than expected 1.0% in July, largely due to an increase in auto and parts sales. Sales of motor vehicles and parts dealers accounted for more than half the increase as sales rebounded from weakness in June caused by a cyber attack that took down a software network that several large dealers use for inventory management, financing and service scheduling. Food and beverage store sales were also strong in July. The report also indicated consumers are getting more focused on essentials and discounts with discretionary spending losing steam. Retail sales represent roughly half of total consumption, while

the other half captures spending on services. **Retail sales ex autos and gas** increased 0.4% in July after gaining 0.8% in June. The numbers in this report are not adjusted for inflation.

- The Labor Department reported the **import price index** climbed 0.1% in July after remaining unchanged the prior month. Gains in food and beverages, auto and auto parts and petroleum was offset by declines in agriculture. Import prices are 1.6% higher year-on-year. **Import prices ex petroleum** gained 0.2% in July for a year-on-year gain of 1.1%.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities declined in July by the most this year on a pullback in factory production that included hurricane related decreases in the Gulf Coast. Industrial production dropped 0.6% in July after increasing 0.3% in June. Production at factories, which make up 74% of output, fell 0.3% in July after remaining unchanged the previous month. Utilities fell 3.7% in July after gaining 2.6% in June while mining remained unchanged in July after declining 0.1% the prior month. **Capacity utilization**, which measures the amount of a plant that is in use, decreased to 77.8% in July from a downwardly revised 78.4% in June.
- The Commerce Department reported **business inventories** increased 0.3% in June after gaining 0.5% the prior month. Inventories are 2.1% higher than a year earlier. **Business sales** fell 0.1% in June after remaining unchanged in May. Sales are 2.2% higher than a year earlier. The ratio of business inventories to sales remained unchanged at 1.38.
- The **National Association of Home Builders/Wells Fargo** reported builder confidence fell for the fourth straight month to its lowest level this year. High mortgage rates and home prices are weighing on both builders and buyers. The data indicate downbeat views on present conditions, but a more optimistic take on the outlook. The index of builder sentiment dropped 2 points to 39 in August. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** decreased in July, even as multi-family construction continued to grow. The drop in starts is likely partly attributable to hurricane season which disrupted construction in the South. Housing starts declined 6.8% in July to a 1,238,000 annualized rate after climbing 1.1% in June to a 1,329,000 annualized rate. Single-family starts decreased 14.1% in July with multi-family starts climbing 14.5%. **Building permits**, a gauge of future construction, decreased 4.0% in July to a 1,396,000 pace, with multi-family applications declining 11.1%.
- The **University of Michigan's preliminary index of consumer sentiment** rose for the first time in five months. The rise in sentiment was partially driven by President Biden's decision not to seek reelection. Consumer expectations are subject to change as the presidential campaign comes into greater focus, even as consumers expect that inflation will continue stabilizing. The gauge of consumer confidence increased to 67.8 in August from 66.4 in July. The **index of current conditions** dropped to 60.9 from 62.7 the prior month while the **index of expectations** increased to 72.1 from 68.8 the prior month. The reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, remained at 3.0% in August. One-year inflation expectations remained at 2.9%.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** surged 16.8% last week as the refinancing index jumped to a two-year high. Mortgage rates have dropped more than a quarter point the last two weeks, motivating homeowners who were on the fence to move forward with their refinancing plans. **Refinancing** applications rose 34.5% to 889.3 last week and **home purchase mortgage applications** increased 2.8% to 137.7. Refinancing made up 48.6% of applications with an average loan size of $377,600, while purchases average loan size at $427,100.

Source: Bloomberg Finance L.P.

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The **average contract rate** on a 30-year fixed-rate mortgage declined 1 basis point to 6.54% from 6.55% the prior week. The rate was 6.82% two weeks ago.

BOND MARKET REVIEW

Rates were lower last week in a volatile market and the yield curve flattened. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.05%, 3.76%, 3.88% and 4.14%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -29, 12, 26, and 9 basis points respectively.

Economic/Events Calendar

Monday	August 19	Jul Leading Index (-0.4%)	9:00 Central
Wednesday	August 21	Aug 16th MBA Mortgage Applications	6:00 Central
		Jul 31st FOMC Meeting Minutes Released	13:00 Central
Thursday	August 22	Aug 17th Initial Jobless Claims (232k)	7:30 Central
		Jul Chicago Fed Nat Activity Index (0.03)	7:30 Central
		Jul Existing Home Sales (3.93m)	9:00 Central
Friday	August 23	Jul New Home Sales (625k)	9:00 Central

Source: Bloomberg Finance L.P.

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